United States
nt of Agriculture
icultural Service

March 1984

Foreign Agriculture

International Franchising: Opening Markets for U.S. Foods

Marketing News

Soap Hygiene Promotion in Pakistan

The **National Renderers Association (NRA)**, in cooperation with the Foreign Agricultural Service and the Pakistan Soap Manufacturers Association, recently kicked off an intensive campaign in Pakistan to educate school children and the general public about the advantages of personal hygiene through the regular use of toilet soap.

Phase one of the Pakistani soap campaign began in January with a number of preselected schools in the Karachi metropolitan area as test sites. The prototype of this campaign has been repeated successfully since 1980 in Korea and Taiwan, reflecting an increase in the demand there for rendered products used in the production of soap. Korean soap production rose 12 percent in the first two years of the campaign. Promotional program kits based on the Korean and Taiwan version were translated into the local dialect, Urdu, and into English.

Three Pakistani team members representing tallow-using industries recently visited rendering plants, laboratories, a poultry farm and a feedmill in the United States. The available quantity, grades and quality controls for U.S. tallow were shown to these soap and poultry feed industry executives during their visit. Pakistan is currently the largest U.S. market for rendered products in Asia. U.S. exports of inedible tallow to Pakistan totaled $33 million in fiscal 1983.

U.S. Wheat Trains Philippine Bakers

U.S. Wheat Associates' (USW) scholarships to a special course in Manila have enabled a group of Philippine bakers to expand their knowledge of baking techniques. The class members came from provincial areas of the Philippines and Manila. U.S. Wheat provided scholarship support to broaden the exposure of a new school to bakers in outlying areas of the country.

Food Terminal, Inc., Baking Technology Center, a bakery training facility in Manila, was opened in February 193 in cooperation with U.S. Wheat Associates. The school at the Baking Technology Center features mechanized equipment to demonstrate to student bakers the proper techniques for improving the quality and output of their bakery goods. The Philippines has nearly 7,000 bakeries throughout the country which traditionally utilize very minimal mechanization in their production.

Through training and service to the baking industry, U.S. Wheat Associates is expanding the market for wheat flour, which will translate into larger markets for U.S. wheat. A long-term program, this training has been underway for several years in various ways and the recently held class marks the latest effort in this continuing process. There has been a substantial upgrading of bakery technology in the Philippines since U.S. Wheat Associates' training assistance was implemented.

The Baking Technology Center is staffed with an instructor trained at the American Institute of Baking and follows a program intended to train bakers in the science of baking and to demonstrate how it affects their individual bakery profitability. The graduate were quick to point out they had indeed acquired skills they can apply to their own production to improve the quality and quantity of their products.

The Magazine for Business Firms Selling U.S. Farm Products Overseas

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Managing Editor
Lynn A. Krawczyk

Design Director
Vincent Hughes

Writers
Robb Deigh
David Garten
Edwin N. Moffett
Maureen Quinn
Aubrey C. Robinson
Geraldine Schumacher

Production Editor
Evelyn Littlejohn

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Franchising in Foreign Markets

Black Star

By William B. Cherkasky

FOREIGN AGRICULTURE recently interviewed William B. Cherkasky, executive vice president of the International Franchise Association (IFA), about international franchising and its effects on U.S. agricultural exports. The following is an edited transcript of that interview—Ed.

FOREIGN AGRICULTURE: What exactly is an international franchise, and how does it differ from a domestic franchise?

WILLIAM B. CHERKASKY: An international franchise is simply one in which the parent company, or franchisor, is in a different country from the franchisee.

Franchisors, of course, sometimes have their own, nonfranchised outlets both in this country and abroad. These are, for all appearances, indistinguishable from franchised outlets.

While these outlets are generally considered to be a part of franchising, a franchise, strictly speaking, is a licensing arrangement between two separate parties.

In international markets, there are several general ways of setting up a franchise. The parent company can grant a master license covering a whole country or region; it can franchise individual units; it can set up a foreign subsidiary; or it can establish a joint venture with a native firm in the host country.

These are not all mutually exclusive options. However, a recent survey by IFA shows that in most instances either master franchising or franchising of individual units takes place.

A domestic franchise is, of course, one in which the franchisor and franchisee operate in the same country. According to U.S. Department of Commerce figures, in 1981 about one in every 12 outlets of U.S. franchisors were in foreign countries.

FA: How much business do U.S. franchises do abroad, and what percent of the volume is related to food franchises?

WBC: The key source of statistics for franchising is an annual Department of Commerce study called *Franchising in the Economy*. The new edition was due out at the end of January 1984. So the latest hard figures we had at your press time are for 1981. At that time, there were 21,416 foreign "business format" franchises operated by U.S. franchisors.

Based on average sales per establishment figures, the total foreign franchise market was estimated to be around

$8 billion in 1981. Of this, about $2 billion was in restaurants, about half a billion dollars was in food retailing other than convenience stores, some $800 million was in convenience stores, and another nearly $700 million was in the hotel, motel and campground category.

Understand that we can only estimate here, but the indication is that nearly half the foreign market is in food sales.

FA: In dollars and cents, how much benefit does the U.S. economy gain from the foreign franchises of companies like McDonald's?

WBC: That's a good question, because it goes beyond the retail sales figures that I've just mentioned. I wish I could give you a better answer, but it's anybody's guess at this point.

We do know that when the market expands at the retail level, we know that it creates demand—and jobs—in other areas of the economy.

For example, there are wholesale bakers in some communities that depend almost entirely on their contracts with the local area franchises in order to stay in business.

And even when the franchisor sells no product directly through the foreign outlet, the franchisor earns a royalty, usually expressed as a percentage of gross sales. Beyond the sale of products, after all, the franchisor is selling the use of a trade name and a proven format for doing business—hence the royalty.

While the royalty may not always be as high as it is for a home-based franchise, since a subfranchisor often enters the picture, foreign markets are still very profitable for the U.S. franchisor.

FA: What determines where a franchise will go for its supplies?

WBC: The most important factors, from what we can tell, are foreign restrictions, relative costs, currency

Black Star

fluctuations, dependability of supply sources and the number of outlets that a franchisor has in a given country.

Nearly one-third of all foreign franchises are in Canada, which has some fairly tight restrictions on agricultural imports. In less restrictive situations, the relative costs of an agricultural product can dictate the source of supply. In some countries, the instability of the currency, against the dollar, precludes the franchisee from depending on a sole-country supply source. And the supply has to be dependable.

It's like the old story of the woman in the butcher shop. She says, "What? $5 a pound for steak?! I can get it for $4 a pound down the street!" So the butcher says, "Why don't you go down the street?" She says, "Because he doesn't have any." "Ma'am," says the butcher, "when we don't have any, it's only $3 a pound!"

The source of supply is especially important in a franchise, because of the quality controls the franchisor enforces. It takes time to approve a new source of supply, so dependability is a real factor.

FA: What impact has international franchising had on the marketing of U.S. value-added agricultural products?

WBC: We don't have a clear fix on the value-added situation, because no one is gathering data on it. But again, in discussing the situation with franchisors, there appears to be a wide difference between companies, depending on the extent to which value-added products figure into the total tab.

I know of one company that exports all of the batter used in its Japanese outlets, another that exports raw materials to local manufacturers for further processing, and a third that sells nothing in the value-added category.

FA: What sort of success have international franchises had in opening up markets for U.S. agricultural products?

WBC: First, franchises in other countries help to westernize the tastes of foreign citizens—at the very least to let them sample U.S.-style food. This acculturation process is helping to increase the demand for American foodstuffs in the nonfranchised segment of the market as well.

In some cases, of course, menus are altered to accommodate local tastes. But by and large, it's U.S. food.

Second, in some markets, the franchisees simply cannot get dried eggs or dried milk, for example, from local suppliers at a competitive price. Consequently, they must import from the United States. I know of one large franchisor who claims that about 70 percent of the products sold through his foreign outlets are supplied by the United States.

I think the bottom line is that any increase in the consumption of U.S.- style food products, whether supplied locally or not, ultimately is going to increase the overall demand for U.S. food.

FA: Is there a way to insure that international franchises use U.S. products?

WBC: Basically, no. I think we need to recognize that the franchisor is not as concerned with who supplies the products as with what the sales and profitability figures look like. That's because the franchisor is frequently making his money through royalties, which are based on sales volume. Profitability is also important, because it insures a continuing relationship, to say the least.

Foreign restrictions also can hamper a franchisee's attempt to buy directly from U.S. suppliers.

However, in some cases, the lack of local suppliers for a specific product can insure the use of U.S. products. A franchisee may be selling Maine lobsters or Virginia peanuts, for example. Even commodity products like wheat are not always available in sufficient supply.

FA: What sort of groundwork do you do before launching an international franchise? How do you know what might or might not sell in any given country

WBC: For those companies that can afford it, market research helps to establish which countries are the best bets and what products will likely sell. Often a pilot operation is then set up and run by the parent company to test the market. Sometimes a franchise is sold in a limited area, and it proves to be successful.

IFA recommends using a 10-point checklist for determining a market's potential. It's important to consider:

1) the host country's population;

(2) the economic factors;

(3) the social factors, especially those related to your product or service;

(4) the political factors, and in some cases, there are enough to preclude franchising in a given country;

(5) the labor factors, particularly if you have restaurant operation;

(6) the business factors, such as restrictions on foreign investments, availability of real estate, etc.;

(7) the competition;

(8) the cost and availability factors;

(9) the state of franchising in the host country;

(10) and, whether or not the host country has its own franchise association.

FA: Assuming that the market looks like it might be ready for a particular franchise, how do you go about getting the operation underway

WBC: Assuming that the initial marketing research yields favorable results, the structure of the relationship has to be established, and this is both a legal and operational matter, depending in part on the host company's laws and in part on the capabilities of the parent company and the prospective franchisee.

Once a pilot operation is under way and successful, the rest is a matter of properly marketing the franchise and growing according to a well-planned schedule. Good contacts, of course, are essential in all of this.

FA: If a franchise is successful, does that pave the way for other franchises in the same market?

WBC: If the first operation is successful, it's a very good sign that similar operations will work even better. This is because there are economies of scale involved in franchising, both in

purchasing and in marketing. So the more outlets you have in a country, without overlapping trading areas, the more cost-effective the total program should be.

Of course, when a market becomes saturated, you can hit a point of diseconomies of scale. Another mitigating factor is that an assay method is often used in site location—that is, the best locations are tapped first, so that on a location-by-location basis, the later stores may not work as well.

FA: What do you tell someone who might be interested in establishing an international franchise?

WBC: It can be an enormous undertaking. I think it's important to have a designated person to handle international operations. IFA conducted a survey of its member companies last year, and one of the questions related to impediments in franchising internationally.

We learned that the greatest impediments can be grouped into the categories of financial, informational, legal, managerial, and those related to the respondent company's size, along with the problem of finding contacts.

As a trade association, IFA is extremely helpful in orchestrating information flows, and that helps our member companies meet the challenge of the foreign market.

FA: In brief, what is IFA?

WBC: IFA is a nonprofit trade association representing something over 450 member companies. Members are franchisors, the parent companies. IFA's mission is to promote franchising as a way of doing business and to serve member companies, which include most of the largest franchisors in the world.

IFA's program consists largely of educating member company executives through symposia, meetings and workshops; lobbying; promoting franchising through the media; publishing; and research trends.

For example, IFA sponsored the Third International Symposium on Franchising last September, and a good deal of information was presented, which is available in the form of audio tapes.

We also published the results of our international survey at that time, and we continue to publish a special quarterly bulletin on the international market.

One of the most important things we can do to help someone get started is to invite them into IFA, if they aren't already members, and put them in touch with fellow members who have already conquered particular foreign markets.

FA: How have international franchises grown over the last decade, and what are their prospects for the future?

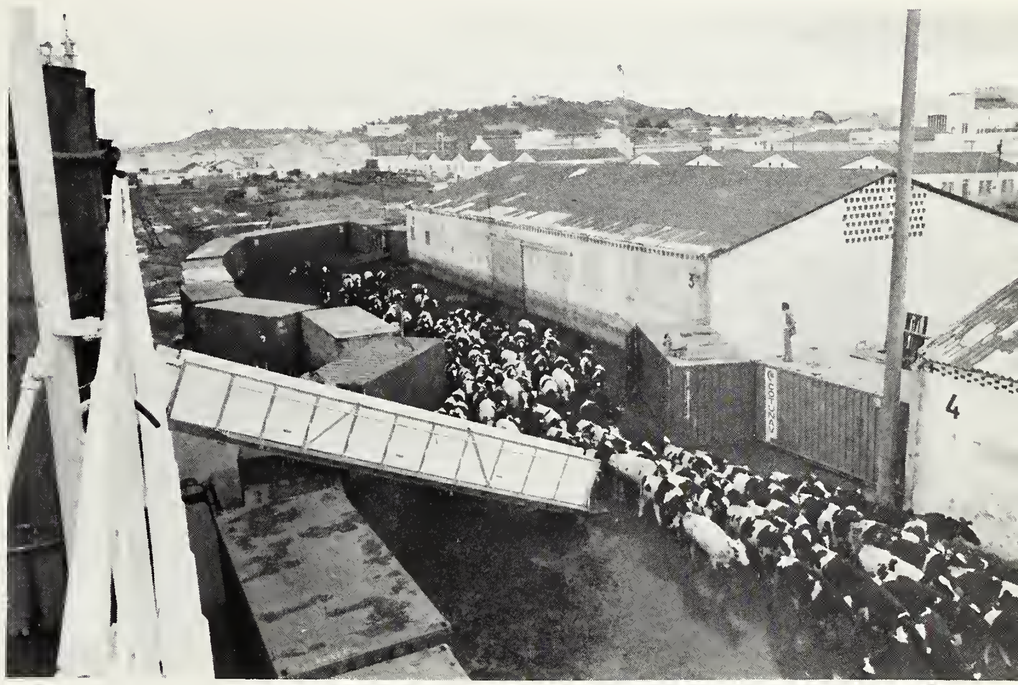
WBC: Amazingly and excellent. Seriously, the last decade has been incredible. In 1971, there were 156 franchising companies operating 3,365 outlets in foreign countries, according to the U.S. Department of Commerce. By the end of 1981, the numbers jumped to 288 companies with 21,416 units in the foreign markets— an 85-percent increase in franchisors and a sixfold increase in outlets! Commerce also indicates that another 121 companies—22 of which are restaurants—plan to tap the international market by the end of this year, and our own survey supports that.

With many of the foreign countries at a level of development roughly comparable to that of the United States during the 1950s, we're likely to see a recurrence of the franchise boom that hit America at that time. Only now, the wheel has been invented, and the U.S. franchisor is squarely behind it. ■

The author is executive vice president, International Franchise Association, Washington, D.C. Tel.(202) 659-0790.

Market Development Pays Off in U.S. Holstein Exports to Tunisia

By Dale L. Good and Peter Koffsky



Tunisia offers significant market potential for exporters of U.S. dairy genetics and feedstuffs because of a major dairy development project now underway.

In the past, Tunisia has not imported any dairy cattle from the United States. However, two years of concentrated market development efforts paid off last November when an initial shipment of 515 U.S. Holstein heifers arrived in Tunis. These animals will form the nucleus of a 2,800-head model dairy farm, the largest in North Africa.

The value of this market for heifers, semen and feed grains over the next five years is estimated at $92.5 million.

Tunisia now imports 58 percent of its annual milk and milk products needs from Europe, but the country has an ambitious expansion program for its dairy sector underway. Tunisia's current five-year development plan (1982-86) calls for a $400-million investment in the livestock sector. Plans are to import 35,000 dairy heifers and 375,000 doses of semen and establish 10 milk processing plants and 42 milk collection centers.

The goal of the model dairy farm is to develop a showcase for utilization of modern dairy genetics, equipment and management, not only for Tunisia, but for other countries in the region as well.

Collaborative Effort To Tap Market

To help U.S. exporters tap the market opened up by the Tunisian project, the Foreign Agricultural Service trade office in Tunis launched a market development effort in 1982 in cooperation with several other U.S. government agencies and private groups.

Those involved have included the U.S. Agency for International Development (USAID), the Trade and Development Program (TDP), USDA's Office of International Cooperation and Development (OICD) and Animal and Plant Health Inspection Service (APHIS), the Holstein Friesian Association of America and U.S. exporters.

Their efforts concentrated on overcoming the following major obstacles to increasing U.S. trade:

—Buying patterns which favored cheap dairy semen and subsidized bred heifers from Europe. Tunisia had never purchased from the United States.

—Aggressive competition from European exporters already established in the market.

—Criticism of U.S. Holstein adaptability and fears of disease introduction.

—Relatively high transportation costs from the United States.

The various U.S. groups worked to help upgrade Tunisia's dairy industry and, at the same time, to demonstrate the advantages of U.S. breeding stock, semen and feed concentrate.

To open the market to U.S. genetic material, the agricultural trade office focused on the major Tunisian importer, the Office of Livestock and Pastures, and, more specifically, the Tunisian-Saudi Bank for Investment and Development (STUSID), which formulated the dairy project.

OICD, the liaison for USDA international technical assistance and training, coordinated an extended stay in Tunisia by Washington State Extension dairy specialist William Kelso. Kelso was already on a resident assignment to support the Tunisian Office of Livestock and Pastures. Funds for Kelso's additional time were provided by the U.S. Trade and Development Program.

Kelso and the agricultural trade officer collected and analyzed data from eight farms in Tunisia that had Friesian and Canadian Holsteins to demonstrate the ultimate economic advantages of the more expensive U.S. Holsteins.

They provided Tunisian officials with information on: milk yield, net returns of imported Holstein bred heifers; estimated costs and returns for a 100-cow dairy in Tunisia averaging 4,000 liters of milk per cow; and an economic comparison between Holstein grade cows and European Friesians under Tunisian conditions.

The studies were translated into French and widely distributed by the agricultural trade office.

The Trade and Development Program financed a Tunisian dairy team's visit to the United States to get acquainted with the U.S. dairy industry and to establish contacts with U.S. dairy farmers.

Kelso also developed specifications for the purchase of animals, semen and equipment; assisted in receiving international bids to assure that offers conformed to required specifications; and developed training and technical assistance requirements.

Credit Key Factor in Gaining Sales

Price remained a problem in moving U.S. Holsteins into Tunisia until USDA provided credit arrangements to counter subsidies offered by the European Community on dairy heifer sales to North Africa.

Early last year, the Commodity Credit Corporation allocated $5.15 million for Tunisian purchases of U.S. dairy cattle, and $350,000 for purchases of semen.

After all of this ground work had been laid, STUSID tendered for 1,000 Holstein heifers and technical assistance. The tenders were translated into English and trade alerts were distributed through the FAS Trade Opportunity Referral Service (TORS) to over 150 U.S. exporters. Through the trade office's efforts, the tenders were amended to allow offers for U.S. grade Holsteins, and the offer deadline was extended.

Allowing U.S. grade Holsteins enabled U.S. exporters to cut an estimated $1 million off their offers.

Health Concerns Posed Problems

On the trade office's recommendation, APHIS and U.S. exporter representatives briefed Tunisian health authorities on U.S. animal health requirements. There had been concern that U.S. heifers would introduce blue tongue disease and wipe out Tunisia's sheep herd.

Diseased animals imported from Europe earlier in 1983 had resulted in Tunisia formulating strict national standards for animals coming from Europe. Until that time, individual purchasers had established their own regulations.

Tunisia Contracts for U.S. Holsteins

In April, STUSID signed a contract with a U.S. exporter to supply 1,000 U.S. Holsteins and technical assistance with the help of a USAID-financed $350,000 technical assistance package.

This project also resulted in the introduction of U.S. semen to Tunisia. The trade office translated and distributed a tender for semen purchases through the TORS system. The sale of 135,000 doses of U.S. Holstein semen to Tunisia was possible because of successful U.S. efforts to introduce a quality factor into the review process.

Small Farmers Also Benefit

The Tunisian dairy industry has been comprised mainly of small farmers and another aspect of USAID and USDA activity in Tunisia is geared to help them.

The small farmer supervised credit project provides a fund to help small-scale farmers obtain some of the capital, materials and expertise they need.

The project is funded by USAID and coordinated by OICD. It will give small-scale Tunisian farmers access to the superior breeding stock, semen and other materials and techniques now being made available to large-scale Tunisian agriculture.

The Tunisian market has been a tough one for U.S. exporters to compete in. However, U.S. dairy experts are confident that these first sales will establish the reputation of high-quality U.S. dairy genetics in the Tunisian market, opening the door to future sales in Tunisia and in neighboring countries as well. ■

Good is the agricultural trade officer in Tunis, Tunisia, and Koffsky is a technical assistance officer, Office of International Cooperation and Development. Tel. (202) 475-4344.

U.S. Agencies Involved in Tunisian Dairy Project

The **Foreign Agricultural Service (FAS)** is the USDA agency charged with increasing U.S. agricultural exports through market development, commodity analysis, trade policy and export credit programs.

The **U.S. Agency for International Development (AID)** funds and implements development projects in collaboration with the governments of developing countries worldwide.

The **Trade and Development Program (TDP)** provides "seed money" and contacts to encourage developing country investments that will be of benefit to U.S. business.

USDA's **Office of International Cooperation and Development (OICD)** is the liason between the technical expertise of the Department of Agriculture and its utilization for agricultural development and trade initiatives overseas.

The **Animal and Plant Health Inspection Service (APHIS)** is the USDA agency concerned with regulating the importation and exportation of animal and plant products.

Fact File

Office of Transportation: Assistance Available for Agricultural Exporters

Given the large volume of U.S. agricultural exports, enormous and complex transportation services are needed to deliver these products to foreign destinations. U.S. agricultural goods move from point to point by every mode of transportation, except pipelines.

USDA's Office of Transportation, established in 1978, has consolidated the primary transportation functions within USDA to deal more effectively with the complex problems facing U.S. shippers and exporters of agricultural products.

Specifically, the Office of Transportation helps exporters by providing:

• Technical assistance—Provides individual help to U.S. exporters; coordinates movement of farm goods between the United States and Mexico; publishes export handbooks, directories and statistical news reports to assist those involved in exporting; sponsors export seminars; and participates in technical exchanges with other countries;

• Economic studies—Analyzes such topics as the future transportation needs of the U.S. agricultural export community; the impact of various cargo preference initiatives on agricultural shippers; the feasibility of a transportation-oriented export trading company; and the development of a futures contract process for the bulk carrier market; and

• Technological research—Works to develop better procedures for shipping farm commodities and livestock; evaluates equipment needs; and analyzes and tests transportation packaging techniques.

For more information on the services and publications offered by USDA's transportation office, call (202) 447-3963 or write to:

Office of Transportation
U.S. Department of Agriculture
Room 1405, Auditors Building
Washington, D.C. 20250

Export Transportation Services

Inside the United States, truck and rail are the major means of transporting agricultural goods, although water and air services are also used.

The majority of U.S. farm exports are transported by merchant ships. The world merchant fleet includes more than 25,000 vessels with a combined capacity of over 662,000 deadweight tons. Within the world fleet are two major types of services—charter and liner. Charter vessels carry bulk commodities; their owners may lease all or part of their ship for a set period of time or just for a single voyage. Since bulk grains, especially corn and wheat, make up the largest volume of U.S. farm exports, charter services are widely used by agricultural exporters.

Liner vessels typically carry high-value, packaged agricultural products and perishable fresh fruits and vegetables. Owners of line vessels provide regularly scheduled service over the same routes at fixed freight rates. Most liner carriers belong to "conferences," which are collective rate-making associations organized around certain trade routes. The U.S. Department of Transportation identifies 92 major trade routes originating in the United States.

Air carriers account for less than one percent of all U.S. farm exports. They carry some high-value or highly perishable products, such as cut flowers, nursery products, fresh fruits and vegetables, and livestock and meat products. More than three-fourths of U.S. livestock exports are shipped by air.

The author is Kay L. McLennan, an economist with the Office of Transportation. Tel. (202) 447-6235.

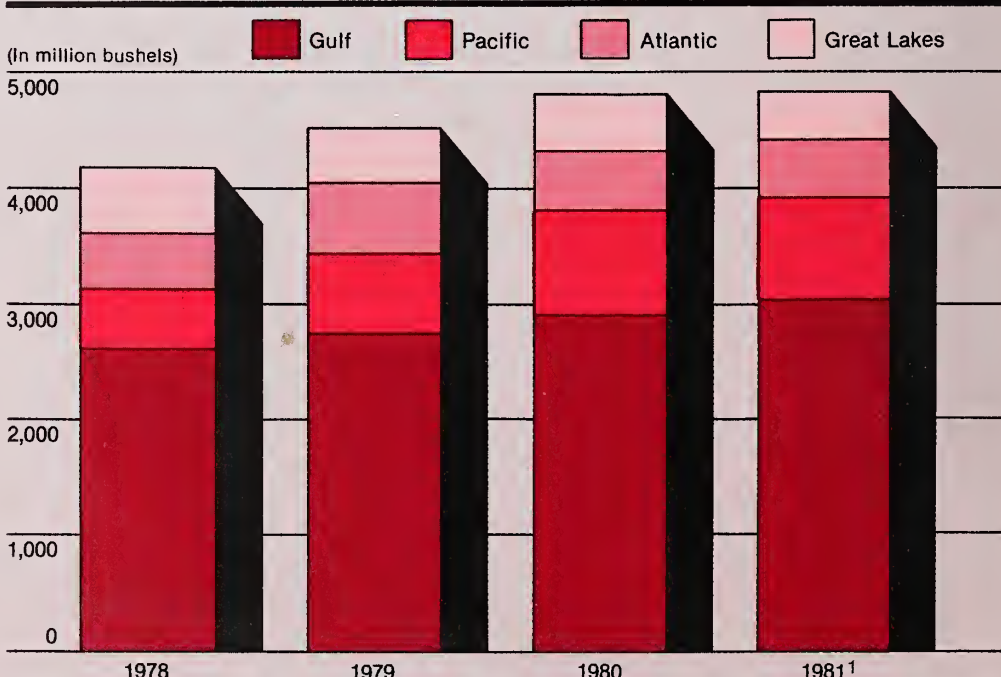
World Merchant Fleet Services U.S. Farm Exports

(Oceangoing vessels of 1,000 gross tons and over, July 1, 1981)

Type of Vessel	Number	Deadweight Tons[1] *In thousands*
Combination passenger and cargo		
U.S.	63	425
Other countries	399	1,556
Freighters		
U.S.	468	6,892
Other countries	13,833	116,009
Bulk carriers		
U.S.	20	615
Other countries	4,861	188,617
Tankers		
U.S.	308	16,302
Other countries	5,142	331,706
Total		
U.S.	859	24,234
Other countries	24,235	637,888
World total	**25,094**	**662,122**

[1] A deadweight ton is the total carrying capacity of a ship, including cargo stores and bunker fuel.

Gulf Ports Lead Nation in Shipping U.S. Grain Exports



Total	4,197	4,565	4,833	4,838

[1]Latest year of available data.

Examining the Risks In Exporting

By Joseph B. Trew

Any new business venture involves risk. But for a small company interested in getting into the export field, a marketing situation with too much risk can be an insurmountable obstacle.

Anyone wanting to break into the export market—especially in today's tight economic climate—must first take a hard, realistic look at the risks involved.

Knowing the Risks

It is often difficult to evaluate international commercial risk. Financial practices in many countries make traditional credit analysis difficult, and sometimes misleading. Business information tends to be inaccurate and out of date and trade checkings poor. Bank checkings are even frustrating. There is a reluctance to share information beyond the most elementary data.

In some countries, different sets of financial data are prepared for the banker, majority stockholders, minority stockholders, tax purposes and creditors.

Profits are not necessarily as important as in the United States as a measure of a business' success. Emphasis is often placed on the balance sheet instead.

Accounting practices vary greatly and can be quite flexible. Inflation accounting, instead of the U.S. system of cost accounting, is used in many countries. Each audited statement must be analyzed in the context of the country involved. This can become even more complicated if subsidiaries from several countries are involved.

Minimize Risks Through Credit Programs

Risks can be managed by taking advantage of programs such as the Commodity Credit Corporation's GSM-102 program or those offered by the Foreign Credit Insurance Association.

The use of credit has been a major tool in cutting U.S. export losses in the current no-growth, highly competitive world market. Credit will continue to be important in meeting foreign competition, particularly in countries hard pressed to meet current needs because of foreign exchange and other constraints.

Concentrate on marketing your products and leave financing arrangements to bankers, except perhaps in the strongest countries. Use your banker in facilitating transactions, use letters of credit or cash against document terms where prudent, and if there is any question, be conservative in your sale terms. Your best sale can turn into your worst if you do not collect.

Going Into New Markets

The selling strategy you use in the U.S. market may not work in foreign markets. Take the time to analyze each market individually and find out who is doing the buying—government or private business—and how much influence the consumer has.

Evaluate your company's strengths and weaknesses and then try to find your niche in the market. Be selective. Try to differentiate your product and segment your market.

Traditions in many countries dictate that the changing of suppliers can be a slow process. Building personal relationships may be necessary to make a sale.

Often the first sale is a matter of timeliness, being there at the right time, having established your relationship and having the flexibility to take advantage of your opportunities. This becomes difficult if you are only in the market to unload excess product.

Foreign markets are much like domestic ones in that profitability will often be cyclical. However, if you are an inconsistent supplier in foreign markets, moving in when profits are high and pulling out or reducing when profits are low, it is much more difficult to maintain your presence or to re-enter that market than it would be in the United States.

A Case Study

The experience of the banks for cooperatives in their attempts to break into international financing markets over the past year and a half serves as a good example of what exporters may encounter in new markets.

Black Star

As a result of 1980 legislation authorizing banks for cooperatives to operate internationally, the banks decided to move into overseas markets through the Central Bank for Cooperatives.

Policies and procedures had to be formulated, a staff hired and a business plan developed. A long list of questions need answering:

—Where were our cooperatives doing business overseas?
—How was business conducted in those countries?
—Who were the buyers?
—What foreign banks were being used?
—What were the cooperatives' marketing strategies in each country and/or with each buyer?
—What additional countries or buyers were they interested in?
—What international banking services were they using?
—How could they be helped to export?

To understand and serve the agricultural needs of foreign countries, representatives of the Central Bank for Cooperatives visited 25 nations, contacting banks, importers, U.S. agricultural counselors, government buying agencies, trade groups and others to determine their needs and to discuss ways in which financing cooperative sales could help them.

A risk analysis unit studied each country and made recommendations on exposure levels for each.

Importance of a Business Plan

The business plan for 1982 was a four-phased approach:
—Determine the needs of the exporting cooperatives;
—Establish a correspondent bank network both domestically and internationally;
—Make direct bids to foreign credit takers; and
—Manage non-U.S. risk through the use of government guarantee programs. We are continually refining our business plan. A few guidelines have helped greatly in the bank's market development efforts:
—Find the right people in each country to help you sell your concept and products.
—Take the time to know the environment in which you are working.
—Be committed.
—Get good people with the right experience.
—And finally, have the patience and perserverance to stay with your program to a successful conclusion.

These principles are valuable, whether you are a small or large exporter. They certainly paid off for the Central Bank for Cooperatives. ■

The author is vice president and North American area manager for the International Services Department of the Central Bank for Cooperatives. This article is adapted from his speech before the U.S. Meat Export Federation's annual convention last fall.

Sales Aids for Exporters

FAS Offers Crop, Market Info by Computer

The Foreign Agricultural Service (FAS) recently began a pilot project to disseminate foreign crop and market information electronically. The objective of the new computerized system is to increase public access to timely information on foreign agricultural developments and markets. Information on the new system will be available to all parties. However, the volume and format of information placed on the system is targeted toward businesses and individuals that can handle large amounts of information or that provide further dissemination of such information to agricultural audiences.

Material available includes the Weekly Roundup of World Production and Trade; the Weekly Export Sales Report; weekly agricultural prices; trade leads; summaries of monthly grain and feed and oilseed developments; and selected information on cotton. For further information and details on accessing this system, contact H. Lee Schatz (202) 382-1295.

Film Series Tells How To Cope With Foreign Cultures

"Going International," a series of four films designed to help organizations and individuals cope with the cultural shock of visiting, living or doing business abroad, has been produced by Copeland Griggs Productions of San Francisco.

"Bridging the Culture Gap," the 28-minute opener, provides an introduction to living and working in a foreign culture. "Managing the Overseas Assignment," a 29-minute segment, portrays specific problems Americans might have doing business in such countries as Japan, Saudi Arabia, England, India and Mexico. Cultural taboos and accepted standards of business behavior are explained by foreign nationals of the host countries.

"Beyond Culture Shock," a 28-minute segment, gives an inside view of how to adjust successfully to living abroad. Experts explain the psychological phases of adjustment. Expatriate families discuss their experiences in overcoming cultural shock.

A final 14-minute segment, "Welcome Home Stranger," focuses on the unexpected problems of families returning home.

The producers of the film received assistance from cross-cultural experts and corporate international trainers from several major U.S. companies. "Going International" is available in film or video tape from Copeland Griggs Productions, 3454 Sacramento St., San Francisco, CA. 94118; Tel. (415) 921-4410.

Export-Oriented Publications Available from Commerce Department

The International Trade Administration of the U.S. Department of Commerce publishes many brochures and pamphlets of interest to U.S. exporters. Following are some of the more general publications available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

A Guide To Doing Business in the ASEAN Region—
Indonesia,/Malaysia/ Philippines/Singapore/Thailand. 66 pp. Oct. 1981.
A Basic Guide to Exporting. 133 pp. Nov. 1981.
Sales Promotion Techniques for Marketing in Communist Countries. 57 pp. Dec. 1981.
Doing Business in China.

The following items are available free from the Publications Division, Room 1617, U.S. Department of Commerce, Washington, D.C. 20230.

How To Get the Most from Overseas Exhibitions.
International Market Search.
Export Promotion Calendar. June 1983-Sept. 1984. 34 pp.

Saudi Arabia Enforces Tight Restrictions on Foreign Visitors

By Jerry Kuhl

The Saudi Arabian market holds good potential for exporters, particularly those selling grain and products, horticultural products, vegetable oils and beef and veal.

But U.S. exporters considering a trip to Saudi Arabia should be aware of strict restrictions the Saudi government places on foreign business representatives and travelers. These restrictions cover a variety of things from types of visas required to what items may be brought into the country with your luggage.

Some of these regulations are highlighted below. For more detailed and comprehensive information, contact the U.S. agricultural trade officer in Jidda. (See address on page 17.)

Visas Needed for Business Visits

—The Saudi government issues two types of entry visas. One is for temporary business visits or visiting relatives; the other, for those entering the country on an employment contract.

—Applicants for temporary visit visas for business consultations must have a Saudi company or individual sponsor their application.

—Business representatives who wish to visit Saudi Arabia to explore business possibilities can obtain a visa by presenting a letter of recommendation from their local Chamber of Commerce, a letter on company letterhead stating the purpose of the trip, and a statement giving the current financial status of the applicant's company.

—Visitors on temporary visas should not surrender their passport to the Saudi sponsor, except for the most valid reasons. The passport and visa are the only evidence of the bearer's legal right to be present in the country.

Saudi Law Applies to Business Disputes

—Saudi law is applied exclusively in all commercial dispute cases, even if the contract was drawn up and/or signed outside Saudi Arabia. The Arabic text of the contract or agreement is considered binding. An accurate English translation should therefore be obtained before any document in Arabic is signed.

Wide-Ranging Customs Restrictions

—Customs clearance procedures in Saudi Arabia are formal, thorough, lengthy and frequently involve a full search of all luggage. Passengers in transit who wish to leave the transit area of the airport are subject to the same strict searches as arriving passengers.

Food

—Customs officials enforce a restriction against the importation of any food items by travelers. All prohibited food items are confiscated. Pork is forbidden in any form.

Alcohol

—There is a strict prohibition against alcoholic beverages and against items with any alcoholic content, including, for example, liqueur-filled chocolates and vanilla extract. Customs officials make no exception. All contraband is seized.

Travelers should exercise extreme care and discretion when consuming alcohol on flights landing in Saudi Arabia. Persons who are obviously inebriated are subject to arrest or deportation.

Drugs

—Attempted importation of drugs or controlled substances, even in very small amounts, is a serious offense under Saudi law. The traveler will be arrested and tried for carrying drugs into the country.

Prison sentences average two years for drug possession or use, and there are more severe sentences for smuggling.

List of Saudi Business Contacts Available

Continued interest in Saudi Arabia's market for U.S. goods and services, valued at $9 billion in 1982, has prompted the Commerce Department to update its trade list of prospective Saudi customers and business contacts.

This 500-page directory includes information on more than 9,000 Saudi manufacturers, agents, distributors, retailers and other importing firms.

Besides the name and address of each company, the trade list gives the names of a key contact, telex and cable addresses, company size, year established, number of employees, and specific product interests.

The trade list also includes an overview of the Saudi market, advice on traveling to that country, and a list of agencies and publications that offer additional economic and commercial information. All data are compiled by commercial officers in U.S. embassies and consulates overseas.

Saudi Arabia: Business Firms can be obtained for $40 (prepaid) from the U.S. Department of Commerce, Office of Trade Information Services, P.O. Box 14207, Washington, D.C. 20044. Credit card orders can be placed by phone on (202) 377-2432. A free index of trade lists covering other countries is also available from the same address.

Black Star

Customs authorities use dogs to detect drugs at airports.

Prescription drugs in small quantities, clearly labeled with traveler's name, doctor's name, pharmacy, and contents of the container should cause no problem. Difficulties are likely to arise, however, if there are large amounts of drugs; drugs are unlabeled and loose; no documentation accompanies the drugs; or, the drugs are illicit. Even doctors have been challenged going through customs. Importation of drugs in large amounts can be done legally only through the Ministry of Health. Travelers carrying drugs in large amounts must have the proper documents from the Ministry. Drug offenses are considered serious and leniency in drug cases is highly unlikely.

Other Prohibited Items

—Firearms of any type, ammunition and related items such as gunsights, are forbidden. Personal religious items, such as bibles and rosaries, are usually permitted, but are sometimes seized at entry. Items on the Arab boycott list, banned books, pornographic materials or printed matter such as gun magazines are likely to create suspicion in the minds of customs officials. ■

The author is U.S. agricultural trade officer, Jidda, Saudi Arabia.

Black Star

Trade Office Sponsoring Mini-Shows for Exporters

To tap the export potential of the Saudi Arabian market, the U.S. agricultural trade office in Jidda has launched a series of mini-shows for exporters wishing to introduce products to Saudi Arabia.

These trade shows will be held about once every two months in Jidda and will then move to Dhahran for the Persian Gulf Coast trade.

Saudi Arabia currently is an important market for agricultural products. Imports in 1983 totaled over $6 billion. The U.S. share of that total was 8 percent or $500 million.

Leading U.S. exports were rice, wheat and wheat flour, beef and veal, apples, vegetable oils (mostly corn oil), preserved vegetables and confectionary items.

Exporters wanting to have their products displayed at the Saudi shows should contact the U.S. Agricultural Trade Office, American Embassy, APO, New York 09697, or call 661-2408 or telex 404683 USATO SJ.

Improve Your Export Prospects: Do Your Market Homework

By Walter W. Minger

Stiffer competition in the international marketplace means that U.S. exporters will need to sharpen their selling skills if they hope to beat out their rivals.

For starters, here's a checklist of things to do that will improve your chances with foreign buyers:

—Get yourself some good descriptive literature, in the language of the country, to hand out to prospective buyers. Better yet, hand out product samples.

—Always carry firm, up-to-date price lists.

—Respond promptly and fully to the letters and wires sent by prospective buyers overseas.

—Know about production and delivery schedules.

—Background yourself on the vessels or methods of transport that will be used to deliver the products.

—Integrate financing arrangements in your sales proposal, whenever possible.

—Have contracts available for signing so you can close a sale while the prospects are in the mood to buy.

—Once you make a sale, prepare the shipping documents with care. Paperwork errors regarding quality, quantity, arrival dates, final price, shared costs, and the like can greatly complicate the sale and delivery process.

—And finally, arrange for adequate servicing facilities in your offshore markets to take care of user complaints. This is a crucial part of sales success in the international marketplace—and is one of the areas where U.S. exporters compare poorly with competitors from other nations.

Know Your Market

Just as in this country—where it's important to know which regions prefer brown eggs to white, or yellow-skinned

broilers to white ones—you should also do your homework on the preferences of the international marketplace.

For example, the preference for red wheat over brown is well documented in international trade channels. Even in soybeans there are color preferences by buyers.

As an exporter you need to learn about these preferences—and market accordingly. Selling "sticky" or short-grain rice to consumers who prefer long-grain or non-sticky rice will lose you customers.

Tailor Your Package To Meet Consumers' Needs

Once you have matched your product to the market, make sure you do the same for your package.

Your container size or weight should be one that foreign customers are familiar with. It also helps to have labels and instructional materials in the language of the foreign consumer.

In some cases, you may need to provide foreign consumers with recipes. And don't assume that a recipe that's a favorite with U.S. consumers will go over well abroad. Foreign consumers frequently need something very different.

The more you can do to tailor your product to the foreign buyer, the greater the likelihood of your sales success.

Foreign Traders May Operate Very Differently

Keep in mind that marketing concepts that work well in the United States don't always work abroad. Foreign traders operate in very different market environments—and to be successful your marketing approach should recognize that fact.

For example, traders in the Orient tend to deal with commodities in back-to-back transactions and make their money on the differentials between buying and selling. Consequently, they are not particularly concerned with developing a loyal clientele that has ability to recognize and ask for branded products.

A great amount of trading in the Orient also is done on the basis of insider information, influence on the part of the various principals, and the transfer of information not normally available to the average person on the street.

Knowing the details of how the market operates in your target country is essential to getting your foot in the door.

Where an "A" on Your Homework Pays Off

The export market is one place where doing a thorough job on your homework pays off.

A case in point is the work done by a firm in the Pacific Northwest that wanted to export frozen french fries to Japan.

Initially, it seemed their product had little chance of sales success. Market statistics already available indicated that Oriental consumers preferred fresh to frozen produce by almost a 20 to 1 margin. In addition, freezer capacity in the average Japanese home was quite limited, since the penchant for freshness leads consumers to shop daily and avoid storing leftovers.

But this particular Northwest firm, by doing its homework carefully, spotted some real opportunities for its product.

One important plus was that the Japanese regularly deep fry their vegetables, so there was no dietary or cholesterol concern over french fries.

Also, the Japanese did not have any good options to frozen potatoes. The quality of their own fresh potatoes was not as high as that of the frozen U.S. product.

And finally, because of the daily shopping patterns, the lack of home freezer space turned out to be an insignificant problem. The small units in most Japanese homes were adequate to store frozen fries, since they weren't being used for much else.

Encouraged by these facts, the company decided to attempt exports. And by opting to let a Japanese wholesaler handle sales for them, they overcame language and packaging problems. The potatoes, shipped to the wholesaler in bulk containers, were packaged for retail sale in the size and style of package that Japanese consumers prefer. The labels also were in Japanese.

As a result, the french fries sold much more easily than they would have with a U.S.-style package with an English label.

A Word of Caution

Many U.S. companies still view exporting as a one-shot deal to get rid of an inventory problem. And this lack of regularity and consistency has been a deterrent to U.S. export growth and market development.

There's really no substitute for hard work in the export market. As the United States becomes more export-dependent, it is essential that exporters put themselves in the buyers' shoes. We need to make sure we are supplying our foreign customers with the products they want, when they want it, in the form they need it. ■

The author was senior vice president for the Bank of America until his recent retirement. These remarks are adapted from his speech to the U.S. Meat Export Federation's annual conference.

Country Briefs

China

Cotton Cloth Ration Ends

In 1984, for the first time in 30 years, Chinese citizens will not need ration coupons to purchase cotton goods. The ration system was suspended last December, the result of a steady rise in China's cotton production, the development of the country's chemical fiber industry and the buildup of large textile reserves.

China now ranks as the world's largest cotton producer, harvesting an estimated 20.0 million bales in 1983. It also consumes more than one-fourth of the world's cotton supply. China's population represents one-fourth of the world's total.

China's production policy is geared to self-sufficiency rather than export, especially since land for food production is limited. However, in light of the very large 1983 crop, the Chinese are seeking export markets for their surplus cotton. Trade estimates of cotton exports range from 100,000 to 600,000 bales. Hong Kong is the major market. There is no doubt that imports will be sharply reduced.— *Norman Kallemeyn, Agricultural Counselor, Beijing.*

Czechoslovakia

Feed Imports From U.S. Decline

Czechoslovakia's goal of achieving self-sufficiency in agriculture is already having a marked impact on U.S. exports to that country. A key aspect of the Czech plan is to limit livestock feed imports by promoting production of less feed-intensive animals (such as cattle and sheep) over more feed-intensive animals (hogs and poultry). Government officials also are promoting their own feed grain and other feed supply capabilities.

Historically, livestock feed (mostly corn and soybean meal and cake) have made up over 80 percent of U.S. agricultural exports to Czechoslovakia. During 1976-80, U.S. agricultural exports to Czechoslovakia averaged $183 million, but by 1982 the total had dropped to $90 million because of much lower feed exports. U.S. agricultural exports are estimated at only about $18 million in 1983.—*Cynthia Taylor, Economic Research Service. (202) 447-8380.*

France

Poultry Exports Grow Strongly

France's poultry exports have set a record in volume every year during the past decade and the country is now the world's leading exporter of poultry meat. Exports in 1983 probably topped the previous year's level of 345,000 tons, and further gains are expected this year.

Most of the growth in France's poultry meat exports has resulted from increased shipments to non-European Community (EC) countries, particularly the Middle East. Assisted by EC export subsidies, exports of French poultry meat to third countries increased more than sevenfold between 1973 and 1982, rising from an average of about 41,000 tons in 1973-75 to 307,400 tons in 1982. However, EC subsidy payments for French exports of poultry and products more than tripled just between 1978 and 1982, totaling approximately $56.6 million in 1982.

France's share of the rapidly growing Middle East poultry market—where imports are estimated to have totaled over 1 million tons, worth $1 billion, in 1983—has more than doubled over the past decade to range between 24 and 27 percent in recent years. In contrast, the U.S. share has been erratic, rising from a low of 0.2 percent in 1973 to a high of 34.3 percent in 1976 but then dropping back to only 1.5 percent in 1982.

EC export subsidies and French national aids to poultry producers in the form of low-interest loans for modernization and improvement are expected to continue to affect U.S. poultry exports adversely in the years ahead.— *James Lopes, Economic Research Service. (202) 447-8289.*

India

Vegoil Buying Practices Reformed

India's State Trading Corporation (STC), the single largest purchaser of vegetable oils in the world, has announced several changes in its procurement procedures in order to gain more favorable terms of trade. The STC will no longer place scheduled orders on a weekly basis, and also has announced it will stay away from the market now and then in order to bring about lower prices. The STC is still inviting tenders every Thursday, and the lowest bids will be circulated among various other suppliers registered with the STC in order to increase competition. The STC also will make spot purchases on occasion.

These adjustments are in addition to other changes in STC contracts for the purchase of oil and shipping. The STC now is attempting to buy vegetable oils on the basis of landed weight and quality, rather than the more usual loaded weight and quality. Also, the STC now refuses the use of certain vessel classes and any vessel over 15 years old.
—Judy Goldich, FAS. (202) 382-0091.

Japan

Coarse Grain Imports Likely To Set Record

Optimism for economic recovery and increased demand for livestock products has improved the outlook for 1983/84 Japanese mixed feed consumption, and consequently U.S. coarse grain exports.

Despite higher world grain prices, Japan's mixed feed production and imports are expected to rise by 4 to 5 percent to meet anticipated demand. More sorghum is expected to be used in feed rations, as feeding of surplus rice is trimmed. Coarse grain imports are expected to reach a record 19 million tons in October-September 1983/84, with an estimated 80 percent supplied by the United States.— *Alan Riffkin, FAS. Tel. (202) 447-3177.*

Protectionism Assessed

Japan maintains one of the highest levels of protection for its agriculture of any country in the industrialized world, according to a group of that country's own economists and political scientists. These analysts recently calculated the degree to which Japan and 10 other industrialized countries protect their farmers. They concluded that while Japan had one of the world's lowest rates of protection in 1955 (15 percent), it had the world's highest level of protection only 10 years later (40.5 percent in 1965). Since that time, the level of protection has continued to increase in Japan, reaching 45.5 percent in 1980.

The group noted that the 45-percent figure for Japan was almost twice as high as the European Community average of 26 percent and was comparable with 53 percent for Switzerland, which is known for its exceptionally high level of agricultural protection for the purposes of national security and environmental conservation for tourism. The group's calculations showed the United States maintained the lowest level of agricultural protection in 1980.

The group's report noted the contribution of protectionism to national food security and environmental conservation. However, it also warned that "citizens must be aware of a large cost involved as measured in this study, as well as the unmeasurable cost of international economic friction that the protectionism may entail."— *William L. Davis, Agricultural Counselor, Tokyo.*

U.S. Hay Sales Face Tough Competition

The United States is expected to face increased competition in the Japanese baled hay market this year. Australia has already announced that it expects to ship 3,600 tons of hay to Japan this year in an attempt to revive trade that was initiated in 1981 but interrupted by the Australian drought.

Japan has imported about 60,000-100,000 tons of baled hay in recent years, primarily from the United States and China. The baled hay imported from the United States in 1982 inlcuded about 15,000 tons of timothy from the Pacific Northwest, generally used to feed race horses, and the remainder was Sudan grass, for feeding to dairy cows.
— Alan Riffkin, FAS. (202) 447-3179.

Nigeria

Food Imports To Increase Sharply

Nigeria's food imports are expected to rise sharply this year as a result of the severe drought last summer and the policies of the new military government which probably will not want to risk food shortages while it tries to consolidate its power.

Simply to maintain consumption levels of recent years, Nigeria will need to more than double grain imports to almost 5 million tons. While imports this large are unlikely, shipments of wheat, rice and corn could exceed 3 million tons compared with an estimated 2.2 million in 1983. Much of the cereal shortfall is in sorghum and millet, but with little international trade in these commodities, imported wheat and rice are likely to be substituted.

The United States, traditionally the major supplier of imported grains to Nigera, probably will supply much of the wheat and corn needed. Thailand usually is the major rice supplier.— *Margaret Missiaen, Economic Research Service. (202) 447-9160.*

Poland

Corn Imports Likely To Rise

A push to revive the poultry industry could push Poland's corn imports during July-June 1983/84 to approximately 700,000 tons. That would be roughly 30 percent above the previous year when imports were only 550,000 tons, the lowest in a decade. Poland's imports continue to be constrained by hard currency shortages and the limited availability of credit. However, large rye exports from the record 1983 crop could provide the Poles with enough hard currency for larger 1983/84 cash corn purchases.— *Alan Riffkin, Grain and Feed Division, FAS. (202) 447-3179.*

South Africa

U.S. Sales Could Be Record Large

U.S. agricultural exports to South Africa are expected to be record large in fiscal 1984, possibly exceeding $300 million, as a result of shortfalls in that country's grain and oilseed production. The previous high was $175 million in fiscal 1981. The U.S. share of South Africa's agricultural imports could be a relatively high 60 percent this year

In 1982, and particularly in 1983, South Africa's corn crop was badly damaged by drought, with the result that South Africa is importing record amounts of corn in 1983/84, about 2.0 to 2.2 million tons. Normally, it is an exporter of corn. U.S. corn shipments could total about 1.3 million tons, valued at nearly $200 million. However, Argentina also is competing for these sales. U.S. rice and oilseed shipments may also be up, although stiff competition from other suppliers may limit increases.— *Larry Witucki, Economic Research Service. (202) 447-9161.*

Sweden

Nectar Success Stirs Juice Market

Less than one year after its introduction to Swedish consumers, fruit juice nectar has taken over 28 percent of Sweden's juice market, by volume, and has a 23-percent market share, by value. Perceived as tasting somewhat less "strong" than traditional juices and considered better for the stomach, nectar has virtually revolutionized the Swedish juice market. The big question now is whether Sweden will go the way of Germany, where nectar has taken over 50 percent of the juice market.

Currently, there are two brands of nectar on the market consisting of various sweetened juice mixes. Both brands were heavily promoted in the media when they were introduced. Another brand may appear on the market soon, and one firm reportedly may launch a nectar concentrate.

Consumption of juices other than nectar decreased significantly during the year, and consequently imports of these juices also fell off. Since the raw materials for nectar were imported from West Germany and the Netherlands, both the United States and Brazil—big suppliers of citrus juices—ended up with smaller sales. Both could lose more sales to nectar in the future.— *William P. Huth, Agricultural Attache, Stockholm.*

Turkey

Feed Grain Imports Expected To Surge

Turkey is one of the bright spots for expanding future demand for U.S. feed grains, since many analysts believe the current push to modernize and stimulate the export sector ultimately will transform Turkey from being self-sufficient or a net exporter of feed grains into a sizable net importer.

Animal agriculture in Turkey is in the process of shifting from pasture-forage systems to formula feeds. The government is encouraging livestock production by offering low interest loans to poultry, sheep, beef and dairy producers. In addition, Turkish import policy seems to be shifting from one of reducing foreign exchange expenditures at whatever cost, to one of increased food exports to earn foreign exchange. Turkey has already begun to focus on meeting the growing demand for meat in Middle Eastern and North African countries. The value of Turkish meat and live animal (principally sheep) exports grew tenfold from 1979 to 1982. These increasing exports, added to growing domestic demand, are generating pressure for additional feed imports.

Feed grain imports in 1983/84 are expected to jump to 600,000 tons, compared with 50,000 tons in 1982/83, although much of this year's sharp growth is due to a short barley crop. Assisted by CCC credit guarantees, Turkey has already purchased 137,000 tons of U.S. barley and is expected to buy an additional 300,000 tons of U.S. grain, mostly barley, this fiscal year.— *Alan Riffkin, FAS. Tel. (202) 447-3177.*

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